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Financial Statements

Nova Scotia Liquor Corporation

March 31, 2008

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Grant Thornton

Auditors' report

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To the members of the Board of
Nova Scotia Liquor Corporation

We have audited the balance sheet of **Nova Scotia Liquor Corporation** at March 31, 2008 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
May 30, 2008

Chartered Accountants

Audit • Tax • Advisory
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Nova Scotia Liquor Corporation
Statements of earnings and retained earnings

Year ended March 31 (in thousands)	2008	2007
Net sales	$ 530,552	$ 504,718
Cost of goods sold	250,065	242,345
	280,487	262,373
Store operating expenses	48,845	47,066
	231,642	215,307
Depreciation and amortization	7,326	4,833
Supply chain expense	5,994	5,262
Corporate services expense	19,687	17,161
Other revenue	(5,630)	(6,321)
Other expenses	5,594	6,131
	32,971	27,066
Net earnings	$ 198,671	$ 188,241
Retained earnings, beginning of year	$ -	$ -
Net earnings	198,671	188,241
Distributions to the Province	(198,671)	(188,241)
Retained earnings, end of year	$ -	$ -

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Balance sheet

March 31 (in thousands)	2008	2007
Assets		
Current		
Cash and cash equivalents	$ 8,281	$ 18,354
Receivables	3,359	2,219
Inventories	35,547	36,761
Prepaids	1,006	879
	48,193	58,213
Property and equipment (note 3)	42,522	36,686
	$ 90,715	$ 94,899
Liabilities		
Current		
Payables and accruals	$ 36,391	$ 33,941
Payable to Minister of Finance	31,690	38,217
Current portion of obligation under capital lease (note 4)	973	847
Current portion of employee future benefit obligations (note 5)	787	666
	69,841	73,671
Obligation under capital lease (note 4)	3,492	4,456
Employee future benefit obligations (note 5)	17,382	16,772
	$ 90,715	$ 94,899

Commitments (note 6)

On behalf of the Board

The Honourable Peter L. McCreath, PC, MA, FRSA
Chair, Board of Directors

Mr. James G. MacLean, B.Sc., LL.B.
Audit Committee Chair

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Statement of cash flows

March 31 (in thousands)	2008	2007
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 198,671**	$ 188,241
Depreciation and amortization	**7,326**	4,833
Gain on disposal of property and equipment	**(1)**	(33)
Increase in employee future benefit obligations	**732**	880
	206,728	193,921
Change in non-cash operating working capital (note 7)	**2,397**	(4,228)
	209,125	189,693
Financing		
Principal payments on obligations under capital lease	**(838)**	(747)
Remittances to Minister of Finance	**(205,200)**	(158,300)
	(206,038)	(159,047)
Investing		
Proceeds on disposal of property and equipment	**35**	387
Purchase of property and equipment	**(13,195)**	(15,157)
	(13,160)	(14,770)
(Decrease) increase in cash and cash equivalents	**(10,073)**	15,876
Cash and cash equivalents, beginning of year	**18,354**	2,478
Cash and cash equivalents, end of year	**$ 8,281**	$ 18,354

See accompanying notes to the financial statements.

Nova Scotia Liquor Corporation
Notes to the financial statements
March 31, 2008

1. Nature of operations

The Nova Scotia Liquor Corporation administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and is a government business enterprise as defined by Public Sector Accounting Board recommendations. The Corporation was created June 1, 2001, by Chapter 4 of the Government Restructuring (2001) Act, via continuance of the Nova Scotia Liquor Commission as a body corporate. The Corporation is exempt from income tax under Section 149 of the Income Tax Act.

2. Summary of significant accounting policies

Inventories
Inventories of stock in warehouse and stores are valued at the lower of cost and net realizable value. Customs and excise tax have not been included where payment is due upon shipment from a bonded warehouse.

Property and equipment
Property and equipment is recorded at cost. Depreciation and amortization is provided on the straight-line basis at the following annual rates:

Furniture, fixtures, other equipment, capital and leasehold improvements	10%
Improvements – owned buildings	10%
Computers – stand-alone	33%
Computers – integrated systems	20%
Land and buildings	4%
Enterprise Resource Planning (ERP) systems	14%

Land costs, which normally would not be depreciated, are depreciated due to the retention of proceeds by the Province of Nova Scotia.

Work in progress includes assets not yet being used, but already purchased. These assets are depreciated when they are available for use.

During the year, the Corporation established a new asset class, "Improvements - owned buildings", which has an annual rate of depreciation of 10%. Costs included in the class are interior fixtures and renovations in keeping with the nature of the retail environment such as millwork and flooring. Reclassifications were made from the building asset class for renovations on owned buildings to be more reflective of the estimated useful life.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks.

Assets under capital lease
Assets under capital lease are depreciated over their estimated useful lives using the straight-line method. The assets under capital lease ($10,831) were fully depreciated in fiscal 2007.

Employee future benefits
The Corporation has a Public Service Award Program covering substantially all of its permanent employees. The benefit is based on years of service and the employee's compensation during the final year of employment. This program is funded in the year of retirement of eligible employees.

The Corporation pays 65% of the cost of health care plans for substantially all retirees or surviving spouses of retirees. This program is funded each year by the payment of the required premiums.

2. Summary of significant accounting policies (continued)

Employee future benefits (continued)
The Corporation accrues its obligations under these employee benefit plans as the employees render the services necessary to earn the employee future benefits. The Corporation has adopted the following policies.

- The cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages and expected health care costs.

- The excess of the net actuarial gain or loss over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which is 10 years.

Permanent employees are members of the Nova Scotia Public Service Superannuation Plan. The cost of pension benefits is the responsibility of the Province of Nova Scotia and accordingly no provision is included in the Corporation's financial statements for pension related amounts. The pension related assets and liabilities are accounted for in the Public Accounts of Nova Scotia.

Use of estimates
The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

Financial instruments
The Corporation's financial instruments include cash and cash equivalents, receivables, payables and accruals, payable to Minister of Finance, obligation under capital lease and employee future benefit obligations. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments. The fair value of these financial instruments approximate their carrying values except for the obligation under capital lease. The fair value of the obligation under capital lease was not determinable due to the fact exit costs are not known.

3. Property and equipment

	2008	2007
Furniture and fixtures	$ 10,246	$ 11,699
Other equipment	9,603	6,696
Computers	12,621	10,030
Land and buildings	9,091	12,042
Improvements – owned buildings	2,812	-
Capital and leasehold improvements	34,657	31,204
ERP	7,966	-
Work in progress	7,226	12,983
	94,222	84,654
Less: accumulated depreciation	51,700	47,968
	$ 42,522	$ 36,686

4. Obligation under capital lease

The Corporation has an obligation under a capital lease, which matures in 2012. The obligation represents the total present value of future minimum lease payments discounted at the rate implicit in the lease which is 13.8%. The future minimum lease payments together with the balance of the obligation under capital lease as of March 31, 2008 are as follows:

2009	$ 1,536
2010	1,536
2011	1,536
2012	1,153
Total minimum lease payments	5,761
Less: amount representing interest	1,296
Balance of obligation	4,465
Less: current portion of obligation	973
	$ 3,492

Administrative expenses include interest of $689 (2007 - $799) related to this obligation.

5. Employee future benefits

The Corporation has two employee future benefit plans for which it is responsible as described in note 2.

Information about these benefit plans, in aggregate, based on the December 31, 2007 actuarial valuation extrapolated to March 31, 2008 is as follows:

	2008	2007
Accrued benefit obligation:		
Balance, beginning of year	$ 15,908	$ 17,599
Current service cost	666	684
Interest cost	906	1,045
Benefits paid	(828)	(860)
Actuarial loss (gain)	1,622	(2,560)
Balance, end of year, and funded status – deficit	18,274	15,908
Less: current portion	787	666
Past service costs	(70)	(80)
Unamortized net actuarial (loss) gain	(35)	1,610
Accrued benefit liability	$ 17,382	$ 16,772

5. Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	2008	2007
Discount rate	**4.95%**	5.70%
Rate of compensation increase	**2.50%**	2.50%

The assumed health care cost trend rate at March 31, 2008 was 7.25%, decreasing at 1% per annum to an ultimate rate of 4.43% per annum.

The Corporation's net benefit plan expense was $1,560 (2007 - $1,738).

6. Commitments

The Corporation leases buildings, premises and equipment under operating leases which expire at various dates between 2008 and 2015.

The following schedule approximates future minimum rental payments required under operating leases as of March 31, 2008:

2009	$ 2,907
2010	$ 2,152
2011	$ 1,493
2012	$ 1,335
2013	$ 1,335

7. Supplemental cash flow information

	2008	2007
Change in non cash operating working capital		
Receivables	$ **(1,140)**	$ 262
Inventory	**1,214**	(6,751)
Prepaids	**(127)**	(108)
Payables and accruals	**2,450**	2,369
	$ **2,397**	$ (4,228)
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	$ **8,281**	$ 18,354
Interest and bank charges	$ **428**	$ 445

8. Change in accounting policy

Effective April 1, 2007, the Corporation implemented the CICA Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income" 3251 "Equity", and 3861 "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods.

The new standard, Section 3855 "Financial Instruments – Recognition and Measurement" requires the Corporation to revalue all of its financial assets and liabilities, including any derivatives and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date.

This standard also requires the Corporation to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; d) loans and receivables – recorded at amortized cost with resulting gains or losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is readily determinable.

In accordance with the new standard, the Corporation's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Available for sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Receivables	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Payable to Minister of Finance	Other liabilities	Amortized cost

Other balance sheet accounts, such as inventories, prepaids, property and equipment, and employee future benefit obligations are not within the scope of the new accounting standards as they are not financial instruments.

The fair value of a financial instrument is the estimated amount that the Corporation would receive or pay to terminate the instrument agreement at the reporting date. To estimate the fair value of each type of financial instrument, various market value data and other valuation techniques are used as appropriate.